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R 020716Z MAR 06
FM AMEMBASSY BELGRADE
TO RUEHC/SECSTATE WASHDC 8083
INFO RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOC/USDOC WASHDC
RUEHC/DEPT OF LABOR WASHDC
RUEHZN/EUROPEAN POLITICAL COLLECTIVE

UNCLAS SECTION 01 OF 02 BELGRADE 000321

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DEPARTMENT PASS TO OPIC, EXIM, TDA AND USAID
USDOC FOR 4232/ITA/MAC/OEERIS/SSAVICH

E.O. 12958: N/A

TAGS: ECON EFIN KPAO ETRD EINV EAID PGOV MW SR

SUBJECT: MONTENEGRO: ECONOMIC DEVELOPMENTS: FEBRUARY 2006

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MACROECONOMICS:

Five Percent GDP Growth Predicted

¶1. (U) The Institute for International Economic Studies (WIIW) in Vienna projects the GDP growth in Montenegro will reach 5.0 percent. GDP growth was 4.0 percent in 2004 and 3.7 percent in 2005. WIIW expects unemployment to plateau at the current level, and inflation to rise slightly to 3.0 percent from 2.5 percent in 2005.

BUSINESS and TOURISM:

Funding for Entrepreneurs

¶2. (U) The GoM announced it will provide Euros 11.2 million in credits to support the growth and development of small and medium enterprises (SMEs). The GoM is looking for SME growth to cut the unemployment rate, and will tie the loans, with favorable interest rates and repayment terms, to job creation. Projects in less developed regions will enjoy even more favorable terms.

Sixth Internet Provider

¶3. (U) VIP Broadband Montenegro, a UK-Netherlands-Montenegro firm, will become Montenegro's sixth Internet provider (ISP), and the second to focus on broadband.

Banks Report 2005 Profits

¶4. (U) The ten leading banks in Montenegro combined for a

profit of Euros 4 million in 2005, after losing Euros 1.1 million in 2004. Of the ten, only one lost money: Hypothecate Bank, which while still plagued by management problems, lost only Euros 2 million in 2005 compared to 2004 losses of Euros 7.3 million. Opportunity Bank, initially established in 2002 with support from USAID to focus on microenterprises, and whose majority shareholder is a U.S. NGO, reported profits of Euros 1.4 million.

Microsoft Engages in Montenegro

¶ 15. (U) Microsoft is working with the GoM and with private business to increase the use of licensed software in Montenegro. After meeting with PM Djukanovic, Bill Gates announced Microsoft would provide software on favorable terms to Montenegro's educational and scientific sector. In the private sector, Microsoft will team with NGO Montenegro Business Alliance to educate business about intellectual property rights.

Niksic Steelworks

¶ 16. (U) The preliminary GoM auditor's report on Midland Resources management of Niksic Steel evinces Midland's contractual failures, media reported. Midland, a UK-offshore firm with Russian capital, privatized Niksic Steel in 2004, with the obligation to make significant obligations. The auditor's report says that when Midland walked away in November 2005, it left a debt of more than Euros 2.6 million to Montenegro. Deputy PM Gvozdenovic promised that the GoM would get Midland to pay all arrears, by agreement or by lawsuit.

GoM Agrees 2006 Privatization Plan

¶ 17. (U) With about 80 percent of Montenegro's state-owned
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industries now privatized, the GoM announced its privatization plan for 2006. The first companies on the list are generally smaller industries with niche (or sometimes non-existent) markets, without prominent firms like KAP or Telekom CG, both privatized in 2005. Privatization strategies will be developed for Electric Power of Montenegro (EPCG), the Port of Bar, Plantaze Vinyards, Montenegro Airports (with facilities in Podgorica and on the coast at Tivat), and Montenegro Airlines, as well as a renewed effort to privatize the Niksic Steelworks. Tenders for the latter companies will probably not be published before the end of 2006.

PUBLIC ECONOMY:

Unemployment Steady

¶ 18. (U) The GoM said unemployment was steady at 18.4 percent. Labor Ministry officials said that the real unemployment, calculated by international standards, was between 12 and 15 percent.

Pensions Increased

¶ 19. (U) Pensions in Montenegro for the first half of 2006 will be increased by 6.36 percent as compared to December ¶ 2005. The first significant increase in pensions in several years will raise average pensions to Euros 137 per month (low: Euros 50, high Euros 571).

T-BILLS

¶ 10. (U) Two auctions of Treasury bills, with a total face value of EUR 2.2 million, was held in January (note: data lags by one month). The average weighted annualized interest rate for the auction held in January amounted to 0.59 percent. The lowest accepted interest rate at the

auctions held in December was 0.49 percent while the highest accepted interest rate was 0.69 percent. Participants at the auctions included local banks.

STOCKS

¶11. (U) The NEX20 index of the Nex Montenegro Stock Exchange ended the month of February at 10,251.87, down 2.02 percent. The Moste index of Montenegroberza declined 1.6 percent to 480.786 in February. Major components of the NEX20 include the privatized Telekom CG and Jugopetrol; major components of the Moste include publicly traded shares of aluminum smelter KAP and vineyard Plantaze. Note: The Montenegrin exchanges are still nascent, and the level of capitalization represented is small although rising (NEX capitalization at the end of 2004 was Euros 495 million; at the end of November 2005 it was Euros 1,410 million).

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